



COUNTY OF LOS ANGELES

FIRE DEPARTMENT

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TO: EACH SUPERVISOR

FROM: P. MICHAEL FREEMAN 

FINANCIAL ISSUE PAPER FOR THE CONSOLIDATED FIRE PROTECTION DISTRICT

Like all governmental agencies, the Consolidated Fire Protection District (Fire District) is being negatively impacted by the current economic downturn. The attached Financial Issue Paper was developed to give some historical perspective on the financial issues the Fire District has faced, as well as apprise you of the issues we are currently facing. Within the next few weeks, I will follow up this paper with a detailed plan and recommendations for the future.

PMF:da

Attachment

c: William T Fujioka, Chief Executive Officer
Vicky Santana
Randi Tahara
Joseph Charney
Rick Velasquez
Sussy Nemer

SERVING THE UNINCORPORATED AREAS OF LOS ANGELES COUNTY AND THE CITIES OF:

AGOURA HILLS
ARTESIA
AZUSA
BALDWIN PARK
BELL
BELL GARDENS
BELLFLOWER
BRADBURY

CALABASAS
CARSON
CERRITOS
CLAREMONT
COMMERCE
COVINA
CUDAHY

DIAMOND BAR
DUARTE
EL MONTE
GARDENA
GLEN DORA
HAWAIIAN GARDENS
HAWTHORNE

HIDDEN HILLS
HUNTINGTON PARK
INDUSTRY
INGLEWOOD
IRVINDALE
LA CANADA FLINTRIDGE
LA HABRA

LA MIRADA
LA PUENTE
LAKEWOOD
LANCASTER
LAWNDALE
LOMITA
LYNWOOD

MALIBU
MAYWOOD
NORWALK
PALMDALE
PALOS VERDES ESTATES
PARAMOUNT
PICO RIVERA

POMONA
RANCHO PALOS VERDES
ROLLING HILLS
ROLLING HILLS ESTATES
ROSEMEAD
SAN DIMAS
SANTA CLARITA

SIGNAL HILL
SOUTH EL MONTE
SOUTH GATE
TEMPLE CITY
WALNUT
WEST HOLLYWOOD
WESTLAKE VILLAGE
WHITTIER

CONSOLIDATED FIRE PROTECTION DISTRICT

FINANCIAL ISSUE PAPER

PURPOSE

The purpose of this document is to summarize the following:

- Services provided by the County of Los Angeles Fire Department and how they are funded;
- Past financial challenges and how they were met;
- Current financial status and future outlook; and.
- Recommended action to meet projected/anticipated financial challenges.

BACKGROUND AND HISTORY

- **Services Provided by Los Angeles County Fire Department**

The Los Angeles County Fire Department is a multi-dimensional emergency services agency that protects over 4.1 million residents living within 2,300 square miles; the Department serves 58 cities including the City of La Habra in Orange County, and all unincorporated areas of Los Angeles County, by providing the following services:

- Responds to more than 296,000 emergency incidents annually
- Suppresses structural and wildland fires
- Performs EMT and paramedic services
- Controls hazardous materials incidents
- Performs technical rescues
- Saves lives and property in natural and man-made disasters
- Protects local beaches and harbors
- Teaches fire and life safety
- Teaches earthquake preparedness
- Inspects for fire and life safety dangers
- Teaches and performs forest conservation
- Provides CERT training to residents

- **Fire District Funding**

The Los Angeles County Fire Department is a Special Fire Protection District under State law and is governed by the Los Angeles County Board of Supervisors.

(4/2/09)

As a Special Fire Protection District, the Los Angeles County Fire Department (Fire District) has three primary sources of revenue:

- Property tax paid directly to the Fire District;
- Per parcel Special Tax based on the use and size of the property improvements; and,
- Revenue from eleven fee-for-service contract cities, and State and federal contracts.

Of these, property tax revenue is by far the largest revenue source, accounting for over 60% of the Fire District's annual funding. Since the Fire District is heavily dependent upon property tax, which fluctuates from year to year, the Fire District relies on the Special Tax to act as a buffer when property tax income is insufficient to maintain emergency service levels.

The Fire District's budget and funding are separate and distinct from the County General Fund. We receive County general funds for 70% of the Lifeguard Division which is tasked with protecting lives along 73 miles of beaches and shoreline including Catalina Island.

- Past Financial Challenges

Since 1990, the Fire District has faced periodic financial challenges that, with the support of the Los Angeles County Board of Supervisors, have been successfully managed utilizing various methods.

1991: Fire Suppression Benefit Assessment was enacted by the Board of Supervisors to serve as a revenue stabilizer during tough economic times as property tax fluctuated.

1992: State began diversion of \$36 million of the Fire District's property tax revenue to the State's Educational Revenue Augmentation Fund (ERAF). The \$36 million annual loss was mitigated by \$15 million in budget cuts and a \$21 million benefit assessment increase. In 2003, the Fire District prevailed in a lawsuit against the State, and over \$155 million will have been returned to the Fire District when the State completes its (\$18 million) annual repayments in Fiscal Year 2011-12.

1996: Proposition 218 (The Right to Vote on Taxes Act) was passed by the voters which invalidated the Fire District's Benefit Assessment and resulted in an annual loss of \$51.7 million. In early 1997, the Superior Court ruled against the Fire District in a lawsuit seeking to validate the Benefit Assessment. This ruling created the need for a long-term replacement of this revenue source to maintain service levels.

(4/2/09)

1997: Proposition E, the Fire District's Special Tax, was passed by the voters to replace the Benefit Assessment. Since its passage, the Special Tax has never been levied at the annual maximum (cap) amount approved by the voters.

In addition to these periodic financial crises, the Fire District has been hard hit by ongoing Community Redevelopment Agencies (CRA) reductions to our property tax revenue. Over the past 20 years, the Fire District has lost over \$404 million to CRAs, with the current annual loss running about \$39 million. To put this amount in perspective, a 3-person engine company, the basic unit of emergency response, costs about \$1.7 million annually. Clearly, CRAs created by many of the cities served by the Fire District have dramatically impacted the Fire District's financial base in a negative way.

LOOKING FORWARD

To prepare for future financial challenges, the Fire District retained a financial consultant to perform a comprehensive study on our current fiscal forecast methodology, identify options for corrective financial action, and identify future revenue opportunities. *This study, along with our internal analyses, indicated a need for structural change in Fire District funding. This change would have ongoing costs supported by sustainable, ongoing revenue. This view indicates that there would likely be a future need to restructure and/or increase the Special Tax.*

CURRENT FINANCIAL STATUS

The national economic crisis and the precipitous drop in Southern California real estate values have had a major negative impact on the Fire District's property tax revenue. Based on recent information from the Auditor-Controller and Assessor, adequate annual property tax increases have been reduced to a very small increase for 2008-09 and projected **decreases** in 2009-10 and perhaps beyond. Since approximately 60% of the Fire District's budget is funded by property tax revenue, this is a significant problem that requires immediate action. Adding to this problem, the \$18 million annual ERAF settlement revenue from the State will conclude in 2011-12.

Based on many forecasts, the economic downturn will likely continue for at least the next few years and we must plan to balance our budget with a combination of curtailments and revenue increases to maintain critically needed emergency services.

(4/2/09)

The latest fiscal forecast for the Fire District includes these assumptions:

- Maintenance of current levels of emergency staffing with necessary staffing increases for new stations that will be opened through 2010-11;
- Maintenance of current salary levels for 2009-10; and,
- Use of property tax revenue projections based on the Assessor and Auditor-Controller information dated March 2009.

FIRE DISTRICT ACTIONS

As the present financial situation continues to negatively impact the economy, local government and the Fire District, specific actions have been initiated and will continue until financial stability is achieved. These actions are summarized below:

- **Cost Reductions**

Although there are many ongoing efficiencies within the Fire District, active cost-cutting and cost containment efforts are underway. All aspects of Fire District's operations are being assessed to generate savings while maintaining essential service delivery and public safety programs.

Special emphasis will be applied to efficiencies which increase productivity and/or reduce costs. Concurrently, outlays of large annual amounts such as Workers Compensation, non-emergency overtime, fire season staffing, and aviation contracts will be scrutinized as well.

- **Trigger Points**

The Fire District actions will include "trigger points." This means that each reduction component will be assigned a realistic "cost-savings value and service priority." Then, if new Fire District financial short-falls are quantified, the needed savings component of the plan (based on service priority) will be triggered and implemented.

It is important to note that those cities which have a fee-for-service contract will not be directly affected by activation of any emergency service reductions as long as they remain current on their payments. However, any indirect impact will be discussed with each affected city as appropriate.

(4/2/09)

- Special Tax

Beginning as soon as August 2009, the Fire District will likely be recommending the Board of Supervisors support an increase in the Special Tax annual levy, likely to its highest authorized level. Although this will be the first time such action has been recommended, it now appears that such action will be necessary.

This action will generate an additional \$13 million for the FY 09/10 funding of the Fire District. This revenue will likely be needed, even with Fire District cost savings and reductions having been implemented.

- Measure B

Historically, Measure B funds have been directed to the Fire District in the annual amount of \$1.3 million. This level of funding covers the annual installment payment for one Bell 412 helicopter and partial funding for the staff of one 24-hour helicopter air squad in the San Gabriel Valley.

Given that the after-hours operation of three Fire District helicopters is largely for trauma patient transport, there is justification for more Measure B annual funding for the Fire District. Such funding is appropriate in that such helicopter trauma transport is the only means that several million people have to access necessary trauma care.

- Use of One-Time Funds

The Fire District has set aside approximately \$133 million in designations to address critical infrastructure needs, capital projects, and budgetary uncertainties. This one-time money comes from the annual ERAF lawsuit payments being made by the State of California (these payments will cease in Fiscal Year 2011-12) and was set aside to fund:

- Capital Projects – heliport, headquarters, Del Valle, regional training center, new fire stations, etc.
- Wireless Communication upgrades
- Engine and Quint fleet purchases
- Funds for small downturns in Fire District revenue

In view of Fire District financial projections through Fiscal Year 2010-11, there will be a need for the Fire District to use at least some of these one-time, designated funds for the next few years. Assuming that the Special Tax is raised to its cap, the Fire District reduces spending significantly and the property tax and associated refund payments remain unchanged, the Fire District must spend between \$25 to \$60 million from one-time designated funds during Fiscal Year 2009-10 and 2010-11.

It is probable that the Board of Supervisors will be asked to approve modest expenditures from these designated one-time funds to sustain operations as necessary.

Of course, the use of one-time designations for ongoing operational costs is a stop-gap measure. Additional ongoing revenue must be found or service reductions of a permanent nature will be the result.

- Innovative Funding Measure Analysis

For some time, it has been apparent that the Fire District funding mix is inadequately structured. Now, with the unprecedented economic downturn, the time for correction cannot be postponed without significant reductions in public safety services.

Initially, a restructuring of the Special Tax and its upper cap could be sufficient. However, the Board of Supervisors should expect the Fire District to lead a broader analysis of options available. This analysis will be timed so that advantage is preserved given critical deadlines required for future ballot measures.

For example, a November 2009 ballot measure must be approved by the Board of Supervisors by August 4, 2009; otherwise, the next ballot option will not become available until April of 2010. Assistance from the Chief Executive Officer and other experts should be collectively focused on a long-term solution that will assure public safety funding stability.

This analysis should include review and recommendations regarding the Community Redevelopment Agencies (CRA) and Labor Code 4850 financial impact on the Fire District, recommendations for legislative corrections, and the requirement for a dedicated, dynamic funding source for the Fire District. Since this study could include recommendations for some type of voter approved measure, the analysis should be concluded by May 31, 2009.

(4/2/09)

BOARD OF SUPERVISORS

As the elected directors of the Fire District, the five Supervisors have exercised strong financial leadership and support for fire and emergency medical services throughout the County. This support has greatly benefited unincorporated areas and cities served by the Fire District, as well as other cities, the southern region, and entire State of California which receives mutual aid services from the Fire District.

The economic challenges presented now will once again require strong leadership. Actions by the Board of Supervisors will be key to allowing those served to have a voice in future funding sources for the Fire District and the critical services it provides.

(4/2/09)